

Daiwa's View

Running out of alternative tools

- Near-term introduction of negative rates dismissed, but OIS remains low and stable

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Daiwa Securities Co. Ltd.

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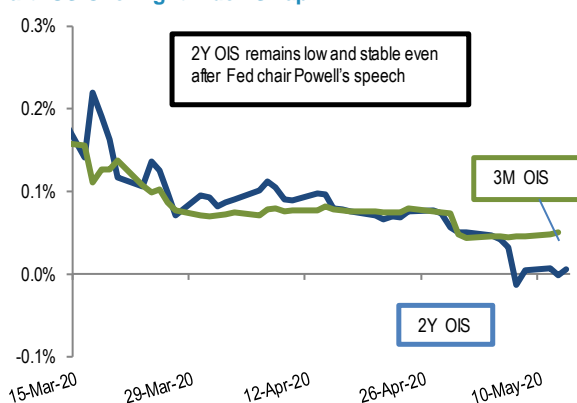
Running out of alternative tools

In his speech yesterday that garnered much attention, Fed chair Jerome Powell dismissed the introduction of negative interest rates in the near term, as expected. Since this was in line with recent remarks by Fed officials, it closely matched the consensus. The market is aware of the possibility that negative rates could be introduced in six to twenty-four months, rather than the near term. Looking at the change in the 2-year OIS, we see that it rose slightly (-0.002%→0.006%), but the rise can be regarded as marginal. Therefore, the speech appears to have been insufficient to convince the market of the view that negative rates will definitely not be introduced in the future.

In the midst of this, the KBW Bank Stock Index declined to 62.74 (down 3.1pt) yesterday, approaching the bottom it hit on 18 March (60.7). This worrisome development appears to be partially reflecting a further increase in credit costs and earnings erosion caused by the flattening of the yield curve due to the prolongation of QE/forward guidance.

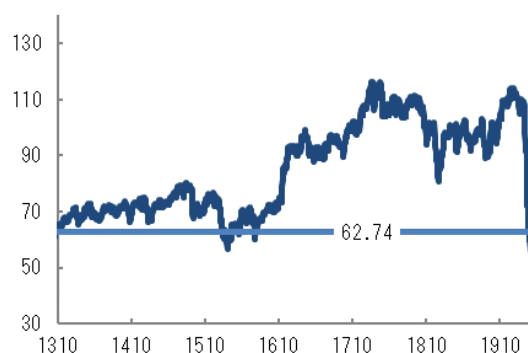
That said, if negative rate policy weighs on bank earnings, “fiscal policy” will be the only measure for coping with the challenges facing the US—persisting economic impacts and side effects from prolonged monetary easing. Yesterday, Chair Powell emphasized the need for additional fiscal policy, proof that effective policy tools are becoming limited even at the Fed. As long as authorities are seen as running out of policy tools, there will probably be lingering speculation that the Fed may consider adopting negative rates at some point.

Chart: US Overnight Index Swap



Source: Bloomberg; compiled by Daiwa Securities.

Chart: KBW Bank Stock Index



Source: Bloomberg; compiled by Daiwa Securities.

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■ Credit Rating Agencies

[Standard & Poor's]

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[Moody's]

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[Fitch]

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- 2) Daiwa Real Estate Asset Management is a subsidiary of Daiwa Securities Group Inc. and serves as the asset management company for the following J-REITs: Daiwa Office Investment Corporation (8976), Daiwa Securities Living Investment Corporation (8986).
- 3) Samty Residential Investment became a consolidated subsidiary of Daiwa Securities Group Inc. effective 10 September 2019.
- 4) On 30 May 2019, Daiwa Securities Group Inc. formalized an equity/business alliance with Samty, and as of 14 June 2019 it owned 16.95% of shares outstanding in Samty along with convertible bonds with a par value of ¥10bn. Conversion of all of said convertible bonds into common shares would bring the stake of Daiwa Securities Group Inc. in Samty to 27.28%.
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- Before engaging in any trading, please thoroughly confirm accounting and tax treatments regarding your trading in financial instruments with such experts as certified public accountants.

* The amount of the trading commission cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

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Corporate Name: Daiwa Securities Co. Ltd.

Registered: Financial Instruments Business Operator, Chief of Kanto Local Finance Bureau (Kin-sho) No.108

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